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C O N F I D E N T I A L SECTION 01 OF 03 HONG KONG 001950

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SUBJECT: THE RISE AND FALL OF HONG KONG'S LIBERAL PARTY

REF: (A) HONG KONG 1666 (B) HONG KONG 1653

Classified By: Consul General Joe Donovan for reasons 1.4 (b) and (d)

11. (C) Summary and Comment: As the saying goes, the Liberal Party (LP) is "not quite dead, but not at all well." Pummeled at the ballot box September 7, the LP was viewed by voters as the party of government collusion with big business in a Legislative Council (LegCo) election marked by working-class grass-roots mobilization. Adding injury to insult, half of the LP's already reduced LegCo delegation has bolted, which may cost the party its chance for a seat in the Executive Council (ExCo), the Administration's inner cabinet.

The LP has an uphill fight to prove its continuing relevance and rebuild a credible political machine that will allow it to continue to contest popularly-elected geographic constituency seats in LegCo, its stated objective. Their choices are to rebuild or to disband: they have no logical partners for a political merger, nor can we see that any party would gain from adding the LP's electoral unpopularity to their banner. End summary and comment.

Defeat at the Ballot Box

12. (C) The new "haves vs. have nots" dynamic in Hong Kong politics was portrayed vividly by the losses of the pro-business, pro-government Liberal Party (LP) in the September 7 LegCo elections (see ref A). The LP lost its only two directly-elected seats -- Chairman James Tien's seat in New Territories East and Vice Chair Selina Chow's seat in New Territories West. Both immediately resigned from their leadership positions to take responsibility for the defeat, and Chow also resigned her ExCo seat. Although both had polled well prior to the elections, our contacts told us after the election the LP was widely seen as in serious jeopardy.

13. (C) Contacts and local pundits cite three factors as salient in the LP's fall. First, the political mood of Hong Kong is turning decidedly against perceived big business collusion with government, and the LP in some ways symbolizes that relationship. As a corollary, while big business has largely acquiesced to a minimum wage, the LP is standing by their economic analysis that a statutory minimum wage will eliminate jobs, which was a tough sell to voters even before the financial crisis. Second, the LP lacks a grass-roots network to get out votes, particularly compared with the DAB and FTU on the pro-Beijing side and the Democratic Party (DPHK) and LSD on the pan-democratic side. Former LP chairman Allen Lee (who would go on to declare the LP doomed in front-page media coverage) told us the LP has failed for the last ten years to do the grass-roots work necessary to remain viable. Third, the LP was over-confident. DPHK strategist Professor C.K. Law told us the LP normally polls about five percent above its actual strength. Lee concurred, telling us the LP would have lost in 2004 had James Tien not taken a popular stand against Article 23 (anti-subversion)

Legislation in 2003. DAB's Gary Chan told us that, on election day, Tien was not campaigning in his own district, but was in Kowloon West attempting to get out the vote for his brother, NPC deputy Michael Tien (who also lost).

¶4. (C) Media (including respected South China Morning Post Editor-at-Large Chris Yeung) have reported James Tien made a late-day phone call to the Central Government Liaison Office (CGLO) to ask for help in the election. If the call actually took place as reported, Tien asked CGLO to intercede with other pro-Beijing parties to direct votes away from electoral "slates" seen as assured of victory to support the LP. DAB's Chan doesn't know if a call was made, but does not see what the CGLO could have done. The LP's Selina Chow dismissed out of hand that Tien would have made such a call, but she also didn't indicate she had first-hand knowledge. Chinese University Professor Ma Ngok told us he had heard instead that the CGLO had called Tien to warn him he was losing. Ma notes that at 7 PM on election day, no party could have reasonably expected to turn the tide, particularly one as lacking in grass-roots resources as the LP.

Rebellion in the Ranks

¶5. (C) The abrupt departure of James Tien and Selina Chow left the LP scrambling both to reaffirm its political principles and to find new leadership. Ideologically, defeat at the polls has led some party insiders to question Tien's strategy of contesting the directly-elected Geographic Constituency (GC) seats and supporting the (eventual)

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elimination of the FCs. FCs are the LP's traditional stronghold, in which they currently hold six seats. LP Executive Committee Member David Lie, seen as speaking for Beijing, was quoted in the media as advocating an FCs-only strategy. In response, Tien loyalists sought to underline the LP's commitment to universal suffrage by promoting Tien's appointment as "honorary chairman". In the end, the pro-democracy wing won out, and Tien indicated he would not pursue the honorary chairmanship.

¶6. (C) Replacing Tien as party leader, however, has proven both more difficult and more damaging. While Commercial - First FC rep Jeffrey Lam was initially tipped to replace Tien, Transportation FC rep Miriam Lau (currently acting chair), seen as having the most support among the party rank-and-file, is now expected to take the chair. Lau and Lam do not differ on the issues, but the heated internal debates have led Lam and fellow legislators Andrew Leung and Sophie Leung to leave the party. Media have speculated the three are backed by property interests no longer happy with the LP's direction, but the three themselves have cited personality clashes with the LP's leadership as fomenting the split. Selina Chow told us the LP hopes that Lam and the others made an emotional decision which can be reversed, and the LP website still lists the three as party members.

Is There Still a Place for the Liberals?

¶7. (C) Allen Lee told us bluntly businessmen won't back losers, and the LP is a loser. In more measured tones, Chinese University Professor Ivan Choy told us he expected more business leaders would invest in the DAB, which he believes is trying to become a more middle-class, centrist party. Civic Exchange CEO Christine Loh suggested in an op-ed Hong Kong needs a center-right democratic party which "understands business - but is not funded by tycoons" to fill the political center. Although she herself has withdrawn from active political life (including policy advisory positions), Selina Chow told us much the same thing: Hong Kong still needs a center-right party representing business

interests and values of small government and liberal economic policy. Even if the three breakaway members cannot be persuaded to return, she seems to expect the LP to continue as an independent party. She told us the LP will work at the District Council level by putting forward candidates possessing both strong LP credentials but also a commitment to service, essentially building up positive name recognition for the party through association with local leaders delivering for their constituents.

18. (C) The only person we spoke with who endorses Allen Lee's suggestion of an LP-DAB merger is Allen Lee. DAB's Gary Chan and Selina Chow both dismissed the idea that the two parties could overcome their ideological differences. Chan believes (and CU's Choy seconds) that the DAB is itself transitioning to a more centrist party, with newcomers like Starry Lee (an accountant) representing a new professional middle class pillar in the party. Chow told us that while Beijing looks at the LP as a "patriotic" party (aiguo, aigang -- love country, love Hong Kong), the LP has "a mind of its own". Describing the DAB as a creation of Beijing to counter the democrats, she clearly intended to cast the LP as a local party representing established Hong Kong interests.

19. (C) Civic Exchange's Loh, on the other hand, suggested a merger of the remaining LP members and the Civic Party (CP) into a coalition which could contest both GC seats and those FCs run on a one-person, one-vote basis (as opposed to corporate voting). CU's Ivan Choy agreed there was some basis for an entente between the democratic camp of the LP and the CP, noting that the CP senior barristers move in the same circles as many business elites. However, he believes Beijing's disapproval of the pro-democracy CP would discourag business leaders with interests on the Mainland from such an alliance. Chow flatly dismissed the ntion of any LP-CP alliance. The CP's barristers Chw said, tend to have an "ivory tower" outloo on politics, which makes them see issues as blak and white and thus less amenable to compromise CU's Ma made the same point to us). Similary, Chow said the CP's lawyerly inclination to codify practices runs counter to the LP's laissez-faire ethos.

110. (C) The other question not answered by our contacts is why any party, particularly a successful one, would devalue its "brand" by merging with an unpopular name like the LP. As noted, the LP can aim to build its strength in the grass-roots level District Councils, but they won't win elections if they oppose the popular minimum wage or other policies supported by the working class. Far from being an

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asset, the LP might be more an electoral liability for another party.
DONOVAN